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SUBJECT: FY 2007 CARRY-OVER ESF FOR STATE AFRICA REGIONAL
PROGRAMS: MOZAMBIQUE PROJECT PROPOSALS

REF: SECSTATE 151653

11. SUMMARY. Embassy Maputo proposes two projects for FY 2007 ESF carryover funding: (1) \$1,000,000 for political competition and consensus-building under the elections and political processes (2.3.2) element and (2) \$500,000 to structure a program aimed at improving the Doing Business "taxes" component in Mozambique by reducing the steps and costs to businesses of paying taxes, under the trade and investment enabling environment (4.2.1) element. END SUMMARY

Democracy: Elections and Political Processes (2.3.2)

12. Just 15 years after the end of its civil war, Mozambique is, in many ways, a model of post-conflict reconciliation, stability, and rapid economic growth. However its political system development has yet to attain the same level as the impressive improvements in its economy and stability. The governing party, FRELIMO, retains near total control of all government institutions at both the national and local levels, as it has since independence in 1975, allowing little room for opposition parties. This concentration of political power, and the resulting weakness of political party structures, hinders the development of democracy and genuine political dialogue. The US Mission to Mozambique proposes that FY 2007 ESF carryover funding in the amount of \$1,000,000 be allocated to the Mission for the political competition and consensus-building, elections and political processes (2.3.2) element. The Mission, through USAID's Democracy and Governance program, will develop a new activity to expand political freedom and enhance the competitive political process, thus strengthening the foundations of democracy in Mozambique. This activity will focus on assisting political parties with training and technical assistance on campaign techniques, researching public attitudes, setting party platforms, strengthening internal structures and capacity.

13. Currently there are seven political parties represented in parliament; FRELIMO controls over two-thirds of the members and rarely engages the opposition. The proposed political party capacity building activity will likely flow through the CEPPS mechanism in order to bring an American non-governmental organization such as IFES, IRI, or NDI to Mozambique to work with the political parties. This team of professionals would work on identified needs of the political parties. It is envisioned that the funds would be spent on political party training across the country and would effectively work in at least three of the ten provinces.

Economic Growth: Trade and Investment Enabling Environment
(4.2.1)

14. Economic growth is one of the USG focus areas. Recently

Mozambican President Guebuza challenged the country to improve its World Bank's Doing Business Indicators rating; in 2007 Mozambique ranked 134 out of the 175 countries included in the ranking. The US Mission to Mozambique requests \$500,000 in FY 2007 ESF carryover funding to work to improve the Doing Business "taxes" component in Mozambique. The funding, from the "trade and investment enabling environment" (4.2.1) element, would structure a program to reduce the steps and costs to businesses of paying taxes.

15. Mozambique has a large informal sector, accounting for an estimated 40% of GDP and employing over 90% of the workforce (this includes traditional agriculture). Although Mozambique rates poorly on several of the Doing Business indicators, one of the major constraints to growth for smaller informal sector firms is the highly complex tax system that is dismally administered and poorly understood. In 2004, USAID helped design a single simple tax for the informal sector, and in 2006 conducted a major study of how the tax system could be made more business and investment-friendly. The study confirmed that this was a priority for business and, consequently, it has been included in an IMF list of actions that the government has agreed to complete for 2008. The Mission proposes to use ESF carryover funding to assist with the design of a similar simplified system for small businesses. This should widen the tax base without increasing the burden on the informal sector. The focus would be on ensuring implementation, improving the prospects for small and medium enterprises to thrive and grow. The funding would be added to an on-going USAID activity funded through Nathan Associates under the same program element.
Chapman